RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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**Feb. 28, 1996** **LETTER 1194**

**OOPS:** There are two Republican candidates that neither the GOP inner circle nor the press want any part of. They are Pat Buchanan and Steve Forbes. The GOP candidates and the press have already cut the legs out from under Forbes. But Buchanan (the only candidate with any real oratory ability), having won in New Hampshire, has thrown the Republicans into a total panic. Dole's future has dimmed considerably. Forbes' fortunes are fading. And Clinton is smiling. **Russell assessment**: God bless (and help) America. What's it gonna be, Clinton or Buchanan?

**THE PICTURE:** February 22 -- After two months of failing to confirm the new D-J Industials highs, BOTH Averages (this time the Transports were included) surged to new bull market highs. The fact that the new highs were made SIMULTANEOUSLY on increasing volume added authority to the move. The bull market has again been re-confirmed. (See Late Notes on page 6 for more.)

There are those who believe that this bull market will continue on and on -- as far as one can fantasize into the distant future. That attitude is not surprising since in business success breeds success, and on Wall Street bullishness breeds bullishness (see news clip). Furthermore, people tend to be influenced largely by the events and actions of the *most recent past.*

**Stock surge brings talk of Dow 10,000**

By Donna Rosato
USA TODAY

Associates. Moore is forecasting a 15% rise in the Dow to 6000 in 1996 but says the Dow

**What a 10,000 Dow means to you now**

Headlines about the high-flying stock market this week:
▶ In USA TODAY: "Stock surge brings talk of Dow 10,000."
▶ In *The Wall Street Journal:* "Dow 6000? Liquidity Engine Fuels Momentum."
Whenever the Dow hits 6000, or 10,000, what really mat-

**Why Long-Term Investors Should Stay Put**

*Hot Sectors Look Enticing But Time, Diversification Work Best*

By Doug Rogers

Then there is a second group composed of those who believe that as night follows day, bear markets will follow bull markets. They further believe that this bull market will be no exception.

Referring to the second group (of which I am one), the question most asked is, "When will this bull market end -- and when a bear market finally arrives, how bad could it be?" Ah, how I wish I could answer those questions with any kind of exactness. Unfortunately, I can't. The fact is that there isn't a man alive who can provide a definitive answer to those questions.

However, we do have a number of precedents which are well worth considering: (1) Judging from over a hundred years of stock market history, we can say that there is a **correlation** between a bull market and the bear market that inevitably follows. The correlation is a simple one -- as a rule, the greater in duration and extent the bull market, the greater in duration and extent the bear market that follows.

(2) As to **duration,** most bear markets have tended to last a quarter to a third as long as the preceding bull market. In **extent,** almost all bear markets of the past have wiped out at least half of the gains of the preceding bull market.

The next question is -- what could cause the current bull market to top out? My answer is that every bull market eventually reaches a level at which it will have *discounted the BEST that can be seen ahead.* When the best is fully discounted in the price structure, there is only one direction to go -- that direction is down.

**Feb. 16 DJIA 5503.32; PTI 4482; A-D Ratio -0.29**
**Feb. 23 DJIA 5630.49; PTI 4489; A-D Ratio -0.22**
**Dow Yield: 2.12%; Dow Price/Earnings: 17.7**
**Dow 200-day MA: 4851; Dow 30-day MA: 5368**
**Dow Times Book Value: 4.31; PTI 89-day MA: 4392**
**Percentage of Undervalued Blue-chips: 3%**
**Gold 200-day MA: 390.12; Gold-PTI: 694**
**(Note the Blue-chip % has dropped to a historic low.)**

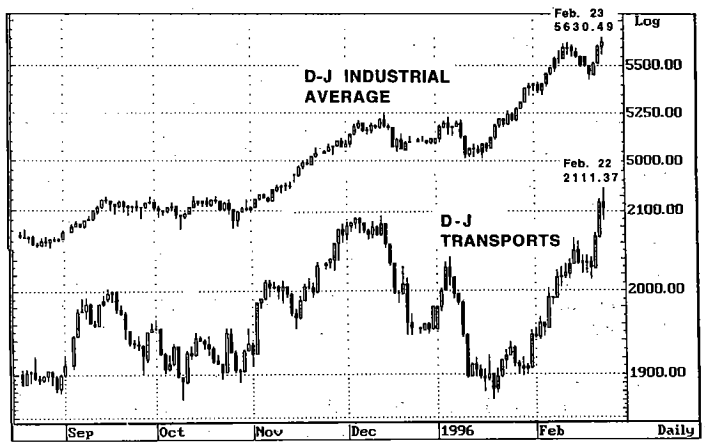
How the market descends is, of course, another question. If the market envisions a period of mildly deteriorating business conditions, it is entirely possible that an extended top will be formed. In other words, the market will form a *complex* top as it seeks to measure the degree of trouble that lies ahead.

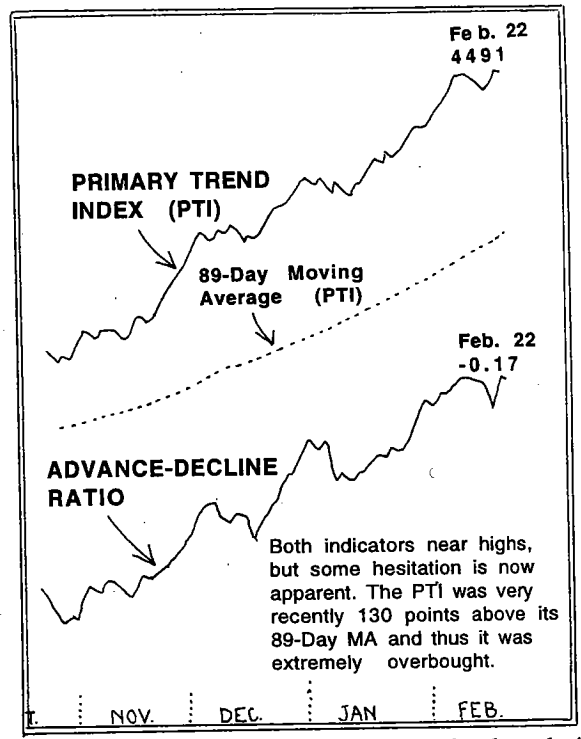
Then there is always the possibility that the market will sense a severe economic downturn ahead. In that case, the bear market will probably be vicious and violent from the start (perhaps the market will even crash, if the forthcoming economic reversal is severe enough).

In today's case, the situation is rather fascinating. There has been a good deal of underlying economic deterioration -- even while the stock market has continued on its explosive way. Obviously, up to this point, the market has not taken seriously the scattered pieces of negative economic news.

A Few Facts: the Purchasing Managers Index (which is now well below 50, see last Letter) has been indicating recession. Last week the four-week moving average of jobless claims rose to 389,000, the highest level in four years. The Leading Indicators have been hinting at recession (although the last figure was a little up-tick). Construction contracts declined at a rapid 6% rate in December and have fallen in each of the last four months. Most recently the computer chip industry's book-to-bill index dropped below 100, its lowest level in nine years (anything below 100 means that billings for chips have fallen below new orders). Finally, Industrial Production in January dropped 0.6%, its biggest drop in five years.

The following is an impressive quote from Gary Shilling's latest *Insight* publication, "Our view is that recession will be precipitated by a slowdown in consumer spending followed by an inventory correction that will create a downward spiral of falling production, falling incomes and further cutbacks in spending . . . Both the Johnson Redbook survey and the Mitsubishi Survey indicate that






although retailers recovered most of the sales lost during the blizzard week, sales have been running below December levels even after seasonal adjustment . . . It is increasingly likely that an inventory adjustment is imminent" (*Shilling & Co.*, 500 Morris Ave., Springfield, NJ 07081).

**MARKET ACTION:** So much for adverse views of the economy. But here's the trillion dollar question -- is the stock market (which has been floating up on a sea of liquidity) correct in ignoring the negative economic news? Or somewhere ahead will the stock market "change its mind" and decide that the negative economic indications are becoming too serious to ignore?

For what it's worth, Fed Chairman Greenspan stated last week that any economic weakness we're seeing will only be temporary, and that the economy is basically healthy and growing. We might remember, however, that Greenspan has never been famous for the accuracy of his predictions.

Following are a few observations on the current state of the stock market:

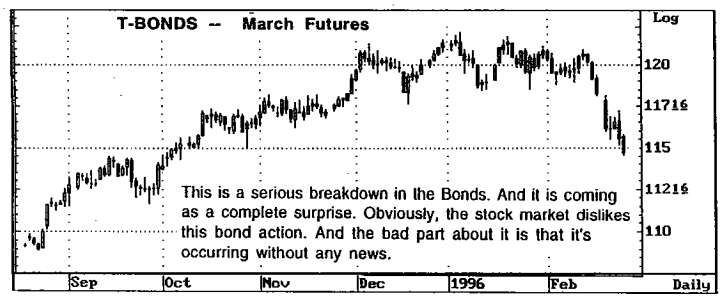
(1) Industrials and Transports have parted company ever since Dec. 5, the date of the last Transport high. But it all came together on February 22. In a single day's action, all the doubts and questions of the past two-and-a-half months were put to rest. While it is true that each successive reconfirmation in a bull market may be the last one, this one appeared to have too much power to be faulted. The February 22 move was a true powerhouse.

(2) Subscribers know that I give a lot of credence to the action of my **Primary Trend Index** (see chart above). The PTI continues to advance to new record highs. A first sign of PTI weakness would be the index lapsing into a recognizable bearish trend. A definitive indication of weakness would be the PTI breaking below its moving average. Neither of these has yet occurred. Thus, the PTI remains bullish.

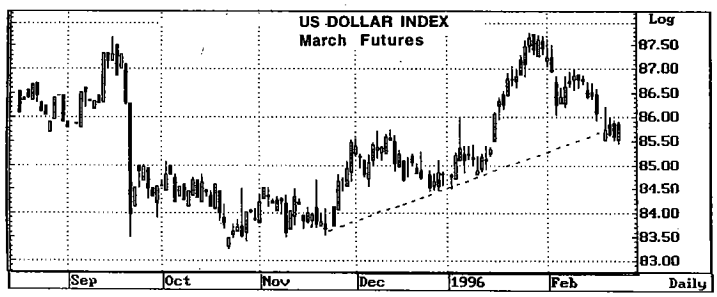
(3) Historically, the **D-J Utility Average** has often acted as a market bellwether. Over the past few weeks, the Utilities, along with the **bonds,** have turned weak. This is an area which will bear careful watching.

**CONTRARY CHARTS:** Two recent widely-held (i.e., consensus) opinions have been (1) that interest rates are heading down, and therefore bonds are a "buy." (Didn't Magellan Fund move heavily into bonds?) And (2) that the dollar is turning strong, and indeed a new dollar bull market may be in the making.

These two very important charts suggest something else. The first chart shows the huge top that has formed in the bonds. Last week the bonds broke down and the top was completed. As a result, interest rates surged (the yield on the long bond is now up to 6.40%). **That wasn't supposed to happen.** The decline from the January high to last week's low wiped out one year's income in government bonds.




The second chart depicts a dramatic double top in the Dollar Index, and then a break down to the 86 level. **That wasn't supposed to happen.** Foreign buyers and holders of US bonds and stocks were hardly happy about it. The Japanese, who wanted a higher dollar and a lower yen, hated it.




**VALUATIONS:** The following is from *Hussman Econometrics Advisors* [(810)553-8383]. John Hussman is an outstanding and original analyst, and in his latest report he notes that stock market earnings (not dividends) can swing widely one way or the other. He further notes that stocks are "a claim on a perpetual stream of future income." Therefore, basing valuation on the earnings of a single year can be deceptive. "A better measure of valuation is to smooth earnings over a period of 2 to 4 years, placing weight on recent observations. On the basis of 4-year smoothed (S&P) earnings, the current smoothed P/E ratio is 24.5, compared with an historical average smoothed P/E of just over 15. This slightly surpasses the August 1987 reading of 22.0, as well as the December 1972 peak of 21.4."

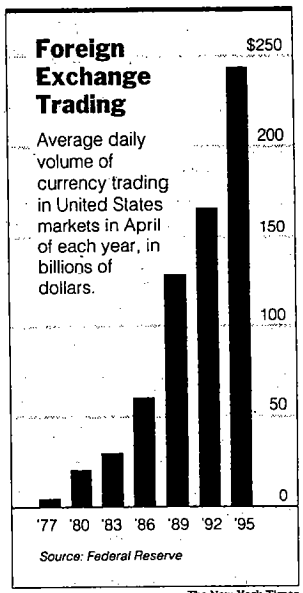
**Russell comment:** I take the above paragraph as extremely important and one of the best comments available on current market valuation. We already know that the Dow dividend yield is a lowly 2.15% and that the Dow is selling at an historically high 4.1 times book value. So all these taken together suggest that the Dow is currently valued far above its norm and even well above the peak valuations that appeared at other bull market tops.

**SUMMARY:** Lots of confusion, lots of cross-currents, lots of losses last week, but the trend of the stock market continues bullish; it will remain bullish until PROVED otherwise.

**INVESTMENT POSITION:** The bull remains in the box. However, as I said in the last Letter, the "gravy train" has passed, the easy money is over. The bond decline since last January has wiped out billions of dollars in values. And the stock market, although still bullish, is turning ragged. The precious metals

took the "gas" last week, so what's left? Dollars. In my opinion, we're now at the stage where the best advice is, "Don't do something, just stand there." There's nothing wrong with watchful waiting, which is what I'm doing.

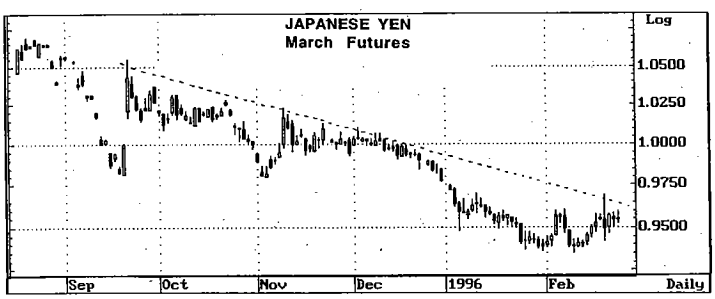
**CURRENCIES:** Currency trading volume (futures and options) now dwarfs all other trading markets. Volume in currencies is running at the astounding rate of $1.2 trillion a day. I note that ads are now appearing in newspapers and magazines and on TV extolling the wonders and profit-generating opportunities in trading the currencies. It's true, millions are made overnight trading the currencies and millions are lost overnight. For the amateur, these are fast-moving difficult markets in which professionals have a decided advantage. Let me put it this way -- if you're not a professional, I don't recommend speculating in currencies.




Nevertheless, it is important to keep track of the trend and level of the major currencies. So let's do it. First, a bit of history. Historically, the dollar has been a bad bet. Since 1966 the dollar has declined roughly 64% against the German D-mark, 72% (that's right, seventy-two percent) against the yen, and a fat 73% against the Swiss franc. Fact: you didn't have to speculate in the US stock market, you could have just held all your money in yen or Swiss francs and amazing -- done almost as well.

All right, let's move to the present. The dollar was discussed in the preceding section. But I want to add one item. Most recently, the "commercials" (big users and operators) have taken a strong position *against* the dollar. And the commercials tend to be right more often than they're wrong.

The Japanese savings rate has been above 20% for years, and this plus a powerful manufacturing base has been a major plus in producing a strong yen. But after rising against the dollar for decades, the dollar has recently outpaced the yen. And, of course, Japanese businessmen dearly want a cheaper yen. As the yen has recently weakened (making Japanese exports more attractive) the Japanese stock market has surged. The Nikkei stock average has climbed from its 1989 bear market low of just over 14,000 to its current price of above 20,000. Considering that the Nikkei bear market wiped 25,000 points off the Nikkei, a halfway retracement of the losses would take the Nikkei back to 26,000. It could happen -- maybe. As for the yen long-term, my opinion is that it is heading lower.

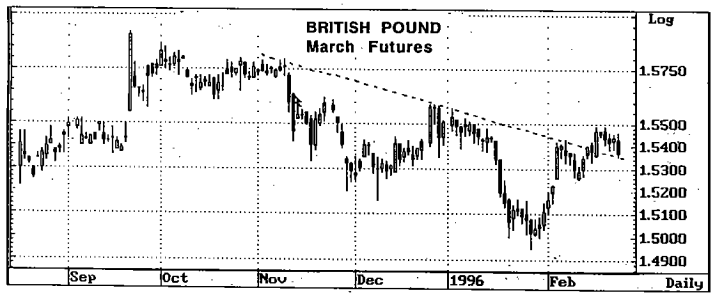



The British pound has been sliding and is now at the 1.53 level (i.e., one pound is worth $1.53). When I was a kid the pound was worth over $4 so you can see that the pound has been on a long journey down. The pound recently sank to an all-time low against the D-mark.

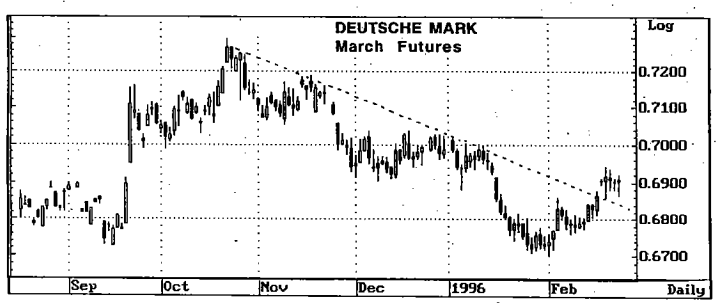
Frankly, I can't see why the pound is worth any more than $1.25, if that. When I was in London a few years ago I was surprised (and angered) by the high prices as compared with US prices. Why should a breakfast in London cost $6-8 when I can get a better breakfast here for half that price? Why should a dress shirt cost $90 when I can get a comparable one here for $50?

I think the pound is heading lower, particularly if the British cut their interest rates (which I think they will, since business is slowing there). By the way, Andrew Kreiger has an excellent article in the Dec. 18 *Forbes* that agrees with me on the pound.

The chart shows important pound support at 1.52. If the pound breaks under 1.52 I think it will quickly sink into the low 1.40 area and maybe down to 1.25 where I think it belongs.




The D-mark is widely considered to be the strongest "big" currency. Why? Because the D-mark is managed by the most conservative and independent central bank in the world, the Bundesbank. The Germans have seen their currency wiped out twice by disastrous inflation, and they now dearly love their powerful D-mark. Nevertheless, the German economy has turned weak -- there's been a 3.5% decline in capital investment and unemployment is now running above 10%. As a result, German rates have declined and the Germans are actually opting for a lower D-mark.




France is now the sick man of Europe, but it has nevertheless tied its franc to the powerful D-mark. France's greatest fear is that it might be ceding European leadership to Germany. France is dealing with a major budget crisis. France's deficit is $65 billion, a deficit that is 40% the size of the US deficit. But France is a nation with an economy one-fifth the size of the US. A full 90% of France's deficit is caused by its social security system, which includes extremely generous health care, welfare, pensions and unemployment. But with the French government desperately trying to cut back on its welfare, strikes are breaking out all over France. The strikes are throwing more people out of work every day (unemployment in France is over 11%), slowing the economy and creating a crisis. The French franc has been weakening against the dollar. The big picture -- will the French buckle down and deal with reality, or will they insist on maintaining the "care-for-everybody" economy?

The two strongest currencies in the world are gold and the Swiss franc. Recently, the Swissie rose to a nine-year high against the D-mark. The conservative Swiss don't have to deal with war debts, huge deficits or mindless politicians spending far beyond the nation's means. Switzerland is the world's bastion of stability, and its currency for decades has done only one thing -- risen against the other major currencies of the world. You want to leave a currency to your grandchildren -- leave them Swiss francs.

**NOTES & QUOTES:** Boy, was I wrong. When Steve Forbes entered the presidential race I thought, "Hot dog, finally an honest guy who is coming in with some really great ideas. At last, a guy who represents real change." And the center of the Forbes platform was the flat tax, a tax that would lower all taxes, simplify the whole crazy, inefficient tax process and eliminate the IRS. So what happened. Everybody attacked Forbes and the flat tax, including almost the entire press and, ironically, all the other Republican candidates. Dole called the flat tax "loopy." Lamar Alexander called it "truly nutty." Buchanan labeled it "out of the yacht basin." And the sad part, it looks like the American people have swallowed all the anti-flat tax nonsense. And with newspapers across the nation denouncing "millionaire publisher Forbes," they've succeeded in turning the Forbes image into "Kookie Richie Rich." The fact is that the "boys" don't want "outsider" Forbes in the race.

## Flaky, Phony, Flat as His Tax, Forbes Flunks

■ New Hampshire should pull the plug on this nasty candidate and his surreal campaign.

Oh, Jack. How could you have it all so wrong?

It's no secret that Jack Kemp is much taken with the candidacy of his friend Steve Forbes. Forbes was the money man behind Empower America. Kemp's

The column above greeted *LA Times* readers on Feb. 18. What's the public to think? More important still, can they think?

* *

So what will happen after the election? As little as possible. Compromises, BS, debates, more compromises, talk, talk, zilch. If Clinton wins the election (and barring a bear market and recession or some other disaster, he will) NOTHING will get done. If Dole gets in, very little will get done. The same idiotic tax system will remain in place, federal deficits will go up at the rate of $100 to $200 billion a year, the national debt will sail over $5 trillion, the politicians will continue blabbing, and a great opportunity will be lost. I guess we have to go back to my old thesis -- "Politicians don't move until the screaming becomes unbearable -- and then they do just enough to bring the screaming down to a dull murmur." *Note: this item from the front page of the Jan. 14 NY Times says it all. The deficit, the big issue of a few months go -- it isn't even talked about anymore. (Can you believe it?)*

## *Deficit Issue Evaporates*

By DAVID E. SANGER

For nearly two years, the Republican economic rallying cry has been loud, insistent and single-minded: The biggest problem ailing the American economy is the Federal budget deficit, and the country cannot prosper until it is wiped out.

News Analysis

* *

This from Maureen Dowd, my favorite *NY Times* columnist (and yes, she's one of the few conservatives on the *Times*!): "It's a sad day for you when Bill Clinton is the most Reaganesque figure on the field. And while he may denounce big government now, you know a second term of Clinton will make the New Deal look like small change. Unchecked by the sobering prospect of another election, the Clintons will be truly themselves for the first time. Is that really how you want to move into the next millennium? . . . In the '80s your party (Republicans) seemed invincible. In '94 you swept the elections. And now this? Bob Dole is not even Walter Mondale. We're getting into Harold Stassen territory."

* *

It looks as though that model of inefficiency and over-spending, the UN, is in major trouble. The trouble? They've run out of money, and they don't know where more cash is coming from. This year alone the UN is short around $400 million, and the US isn't helping. Uncle Sam owes the UN $1.2 billion and the Republican Congress isn't apt to come up with the money. Altogether, the UN is owed a total $2.3 billion. So if nothing else, it's downsizing time at the UN.

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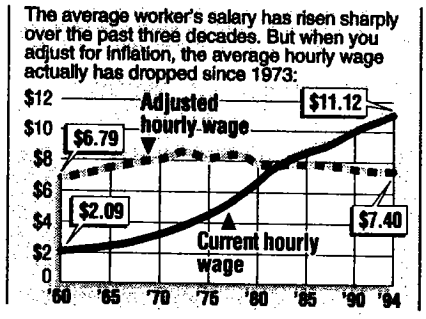
All the talk about the average American being unhappy -- what's behind it? Here's the story in a single chart. Since 1973 real wages (adjusted for inflation) have been DECLINING. Result: the average American is unable to keep up with his expenses (even with both spouses working). This is what's behind the anger or frustration of most Americans. And strangely, it's only Buchanan who has zeroed in on it -- and he's using it in every speech.



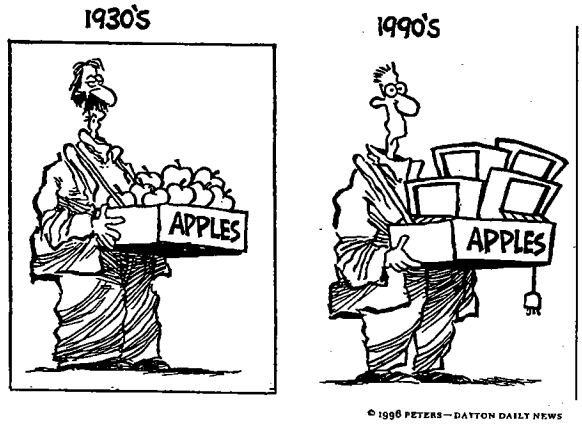

Meanwhile, most Americans are frustrated. We can't get the damn government off our backs. We can't get out from under a sea of onerous taxes. We can't cut through the maze of waste and bureaucracy. Nothing seems to work or get done. Yet we're the ones who elect these useless politicians. We're the ones who are ignorant of the Constitution. We're the ones who don't see through the political obfuscation. So in the end, I guess we deserve what we get.

* *

**25-50:** Fifty years ago, ENIAC, the first general purpose electronic computer, was born. The clunky computer was as big as a garage (1,800 square feet and 17,468 vacuum tubes). Yet ENIAC was infinitely faster than humans, and the army used it for figuring missile projectories. The second revolution -- 25 years ago the microchip was born, and the chip combined with the computer changed the world.

* *

**MAC:** As I've confessed many times before, I'm in love with my Mac. Therefore, I was aghast when I saw this cartoon. No, c'mon, it won't come to this -- Apple will either make it on its own or more likely they'll be merged or bought out by another company (I was hoping it would be IBM).

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OK, I'm reading "Primary Colors," which, as you probably know, is the fictional book about the 1992 election written by "Anonymous." Everyone in Washington is trying to figure out who Anonymous is, but we do know that Anonymous just sold "Primary" to Hollywood for $1 million. The book documents the Clinton bunch along with assorted characters. Hillary is pictured as shrewd, tough, a tigress. Clinton is campaign-happy, shaking hands, plotting, denying his mis-deeds and talking, talking, talking. Halfway through the book I asked myself, am I really this interested in all these inside Washington shenanigans? To read the book is to be disillusioned, that is, if you can be any more disillusioned than you are now in how presidents are picked and how politicians manipulate the press and the voters. The book, by the way, is selling like crazy and is already in its ninth printing. Book sellers can't keep it in the stores. And I wonder, how can people read this book and vote for Clinton? But they do, and they will.

* *

Last week the S. African rand tumbled over 5% (down 7% at one point) as Japanese, US and European sources and hedge funds bailed out of the currency. Since January the rand has fallen 9% against the Swissie and 5.5% against the dollar. Rand holders were afraid that relaxing exchange controls could lead to a massive outflow of capital from S. Africa.

* *

The Chinese are rattling their swords again, putting intense pressure on Taiwan and Hong Kong. In March Taiwan has an election and President Lee Teng-hui has been advocating full independence for the island. Of course China considers Taiwan part of China, and the thought of the island going independent has Chinese leaders at the point of hysteria -- to the point, actually, of threatening military action.

As for Hong Kong, this photo from the *Int. Herald Tribune* is captioned, "Headed for China -- members of China's People's Liberation Army (PLA) practice martial arts in Shenzhen, southern China on Jan. 29. They are members of the hand-picked PLA troops who will march into Hong Kong at midnight, June 30, 1997, when the British flag is lowered."

Meanwhile, the Taiwanese are sending money, big time, to the US and specifically to LA. Last week the *LA Times* listed property recently purchased by Taiwan interests, including the Pacific Center, the 1100 Wilshire Building, the 520 Broadway Building and the Westin Bonaventure Hotel and Suites.

Chinese interests (worried about Hong Kong) have also been investing in the US. Said Jordan Richman of Grubb & Ellis in LA, "The Chinese are very prudent investors; they kick the tires and check it out to the nth degree. The Japanese came in and unfortunately didn't have the right financial advisors."

Back in the '80s a Japanese group bought the famous Beverly Wilshire Hotel for $200 million. Last week a high-powered Hong Kong consortium bought the hotel -- price $100 million. The new buyers plan to spend $20 to $30 million in renovating the 275-room hotel and adding 110 to 120 new rooms.

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**Hollywood:** Do you wonder why John Travolta was skipped for an Oscar nomination? He could have received the nomination for his wild role in "Get Shorty." The rumor: Travolta just signed for a new role and as a joke added one dollar to a reputed $20 million deal. That would make the deal $20 million and one and also make Travolta the new "highest paid actor in Hollywood" (Stallone gets $20 million). Talk is that this crass joke so annoyed the movie colony that Travolta was passed over. That extra buck may have cost him an Academy Award.

* *

**Gaming:** How can Las Vegas afford to keep building those huge, gaudy gambling palaces? Easy, they do it with the money they take from the gambling suckers. Here are some statistics: for the single month of December, 1995, the total gambling take for the state of Nevada was $669.6 million, up 11.4% from a year ago. For November the take was $609.6 million. For October it was $621.2 million. The worst month of '95 for the Nevada casinos was the $580.8 million of January. From there it was onward and upward. With that kind of money pouring in, is it any wonder that they're building like crazy in Las Vegas? And is it any wonder that state after state is turning to gambling?

* *

## Chelation Could Save Limbs—And Your Life

As many of you know, I use EDTA chelation therapy as part of a treatment program for both heart disease and blocked arteries in the legs. I contend that virtually every physician who uses EDTA chelation therapy has patients like J.J., who would benefit considerably from this therapy.

J.J. is a 53-year-old high school teacher with a 13-year history of diabetes, who had had persistent problems with diabetic ulcers on the bottom of his left foot for two to three years. As with so many diabetics with vascular problems, J.J.'s ulcers never completely healed, in spite of several hospital stays for massive doses of antibiotics.

Because the infection persisted even while J.J. was treated in the hospital, he was scheduled for amputation of his left leg and the fitting of a prosthesis. On the morning of the day he was scheduled for surgery, he called the substitute teacher who was handling his classes to tell him that he would be out for the rest of the semester to undergo rehabilitation for amputation of his leg. This teacher had heard of EDTA chelation therapy, and advised J.J. call my clinic to investigate it. He said to J.J. (no pun intended), "What have you got to lose?"

J.J. checked out of the hospital against his physician's advice, and came to the clinic. He was given a full course of chelation therapy, which was done in the clinic over three-hour periods once or twice a week. In addition, his wound was treated with topical dressings of honey or sugar which, as I have written before, have remarkable healing power with difficult ulcer problems. He read my book, *Reversing Diabetes* (Warner Books, New York: 1987) and we put him on the program outlined in that book, with personal modifications.

Today, J.J. is walking around on a healed left leg, and he emphatically states: "Chelation saved my life."

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*Dr. Whitaker has practiced medicine for 17 years, is an advocate of a natural, non-toxic approach to healthy living and has helped thousands reverse the effects of disease at the Whitaker Wellness Institute in Newport Beach, California. Dr. Whitaker is also the editor of* Health & Healing, *a monthly newsletter on personal health. For subscription information, call 1-800-777-5005.*

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I've received many letters from subscribers regarding the **chelation** (key-lation) treatments that I'm taking. Chelation entails intravenous injections of a chemical called EDTA. Each treatment takes about three hours. If you have heart trouble or even diabetes it would be worth your while to visit a health food store and buy one of the many books on chelation. Doctors for the most part disparage it; patients I've met swear by it. I take one treatment a month now (I'm up to number 54), and I think it works. Remember, I'm a guy who had a heart attack in 1970, a quintuple bypass in 1986, a second mild heart attack as a graft closed and then a "stent" put in the graft that had closed (this last about four years ago). After all that I said, "Enough." I decided to try something else -- chelation. That was three years ago. Something happened, something worked. I feel good. And I now go a half-hour a day on the stairmaster.

This piece by Dr. Whitaker is well worth reading. I include this chelation section on the thesis that there are more important things in life than just making money. Or, let me put it another way -- if you haven't got your health, nothing else matters.

* *

**Ruskies:** The world watches as the June Russian election is approaching. The potential disaster is that Gennady Zyuganov is leading at the polls with a vote of 17.1% against Grigory Yanlinsky at 11.3% and Boris Yeltsin at 10%. The potential disaster is that Zyuganov is Chairman of the Central Committee of the Communist Party. Zyuganov's platform: "Russia should lead the world, not try to catch up with it." He wants to bring back Communism and restore the leadership of the Communist Party. And many Russians, bewildered, frightened or disillusioned by widespread crime and corruption that has overtaken Russia, could easily bring back the Communist Party.

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What's happening? With everyone amazed at the recent stock market action, this sentence from the Feb. 23 *WSJ* is worth pondering: "Worried about their financial futures, flooded with advice about how and where to invest, and lured by the ease of investing through mutual funds, people of all ages have abandoned their free-spending ways of the 1980s in favor of frugality -- and the stock market. And with the leading edge of the baby-boom

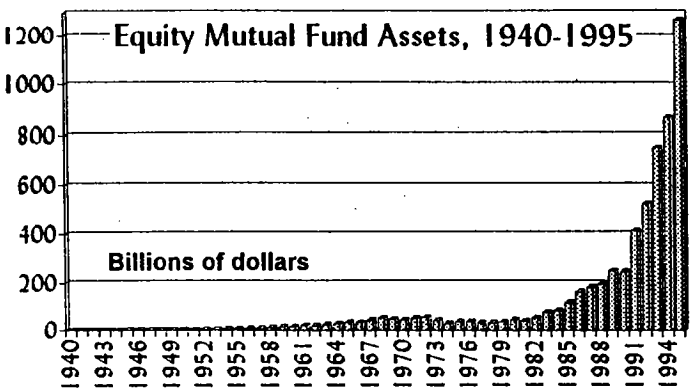
generation hitting the prime age for earnings and savings, a flood of money is likely to be available for the next decade."

**Russell comment:** Personally, I'm not convinced that the American people are "in favor of frugality," but I do think (1) fear has a lot to do with the current rush into the stock market, and the fear is that people will be left with no jobs, no savings, no Social Security and no income. So the way to "safety," they are told, is via buying stocks and allowing them to accumulate to riches. That's the fear part of the equation.

But (2) the other side of the coin is greed. People see the market "going up," and they want to get in on the action. Thus they are putting their earnings, their savings and their pension money into the market. And they are going through the financial pages, figuring out their profits or net worth every day.

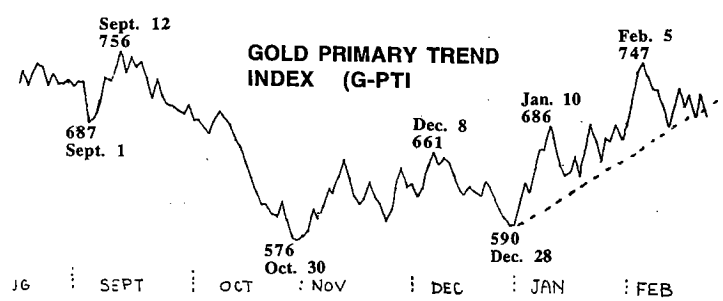
This chart of money coming into equity mutual funds tells us a lot. I was asked recently by Richard Saxton (TV station 22 out of LA) what I meant by "a stock market mania." I answered, "When the Dow goes up for five years running without so much as a 10% correction and volume increases each year, that verges on mania." I added, "Money coming into equity mutual funds is also increasing at a parabolic rate. That also suggests a mania for stocks."

Richard asked me, "What happens after a mania?" My answer, "A great sobering up." And so it goes.




**GOLD:** What's a definition of "frustration"? Here's one -- it's trying to figure what the devil is going on with gold. Gold starts to look good or at least OK, then it breaks down. Then it re-consolidates and rallies over 400, then it breaks down again. Yeah, I know, the supply/demand equation for gold is the best in recent years. And I know that gold production in S. Africa is accelerating *downward* at the fastest pace in 25 years. And I know that the cost of producing S. African gold has increased to where it is now $325 an ounce. And I know that one currency after another is devaluing. And I know that the Indian rupee and the S. African rand have just "taken it" on the downside. And we all know that world interest rates have been coming down, which is basically inflationary. We also know that almost every developed nation is pumping up its money supply, trying to re-inflate.

But still, gold doesn't move up and out in a clearly bullish manner. My **Gold-Primary Trend Index (G-PTI)** tells the story. The recent high of **756** was recorded last Sept. 12. Then we saw the decline to the **576** low on Oct. 30. That was evidently an important



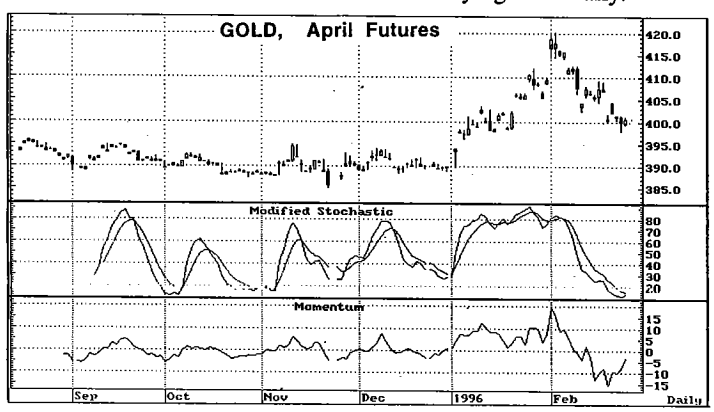

low for gold. Next gold rallied to the Dec. 8 high, then down to the 590 low of Dec. 28. From there gold traced out a rising trend, and the picture brightened considerably.

I drew the bullish trendline which you see on the chart. Alas, on Feb. 23 the trendline was violated. But all is not lost -- the G-PTI is still well above its Dec. 28 low. Most logical analysis: gold has been in a trading range for many months -- but with a rising tendency.

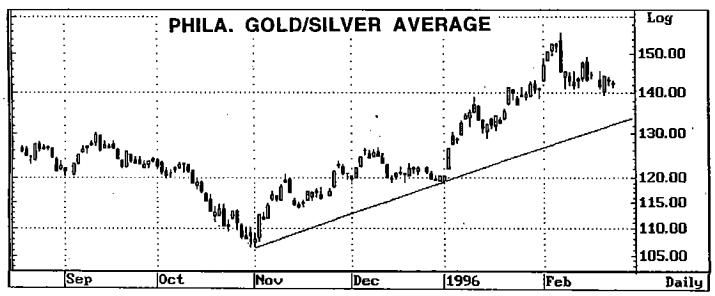
What can we look for next? Here's my own bull signal -- it would be the G-PTI breaking above that Sept. 12 high of 756. Of course, there's another and more obvious bull signal: it would be spot gold breaking above the 420 level.

My secret suspicion: central banks are still selling gold "above 400." Remember, gold above 400 is news that hits the financial pages. The central banks don't want that. They want to be able to inflate their money supplies *without the tell-tale sign of rising gold.* So far, they have succeeded.

Enough of theories, let's get down to facts. This first chart shows the April Gold futures (daily). I've also shown two technical devices. The stochastics suggest that gold is over-sold and should be meeting downside resistance. Momentum shows the same thing -- that gold got over-sold and should be "trying" for a rally.




The second chart shows that the Phila. Gold/Silver Average has broken down on a near-term basis, but it is still holding above its rising or bullish trendline. XAU could come down to the trendline at 132 and still look OK. However, under 130 would represent a discouraging breakdown.




**LATE NOTES:** Two items that are worth commenting on: (1) The bonds remain very WEAK. Why? Is the economy going to be better than expected? Is the Fed finished as far as interest cuts are concerned? Or is something else affecting the bonds -- and the Utility Average as well?

(2) Despite intervention (Japan spent $5 billion in four days to bolster the dollar) the yen continues to strengthen against the dollar. Could the weak dollar be upsetting bonds (and foreign bond holders)?

At any rate, the stock market seems to have mixed (or negative) feelings about both of the above. The weakest of the Averages is the Utility Average. But remember, that Average has often acted as the bellwether for the entire market.

**NEXT MAILING: Mar. 13, 1996**